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TAGS: ECON EINV EPET PGOV PREL RP SA

SUBJECT: INSIGHT INTO SAUDI ARAMCO'S DIVESTITURE FROM THE PHILIPPINES

REF: RIYADH 547

Classified By: Consul General John Kincannon for reasons 1.4 (b) and (d)
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¶1. (C) SUMMARY: In addition to revealing that Aramco manages nearly 60 billion USD in liquid investments (Reftel), during an April 1 meeting with ConOffs Saudi Aramco Treasurer Motassim al-Maashouq (protect) also gave insight into Saudi Aramco's decision to divest from Petron Corporation, a joint venture with Philippine National Oil Company (PNOC). Al-Maashouq was confident Aramco's sale of its 40 percent share in Petron would be approved by the Philippine government, and said that while the joint venture was profitable, Aramco can only afford to focus on truly "big deals" given current market conditions. END SUMMARY.

DESPITE PROFITS, ARAMCO SELLS PETRON SHARES TO ASHMORE

¶2. (C) In an April 1 meeting, Aramco Treasurer Motassim al-Maashouq said that he is confident the Philippine government will approve Saudi Aramco's sale of its 40 percent stake in Petron Corporation to Ashmore Investment Management Limited, a British investment firm. Ashmore has agreed to pay 550 million USD for 3.75 billion shares of the largest oil refining and marketing company in the Philippines, 200 million USD at closing and 350 million USD payable within 12 months. Al-Maashouq believes that Ashmore is interested in Petron because it sees value in specific parts of the company's operations, and might try to spin-off the most profitable divisions of the company. In response to questions about the political viability of such actions given the Philippine government's interest in Petron, al-Maashouq said that Ashmore and Philippine National Oil Company (PNOC) could easily manage public opinion. For example, Ashmore and PNOC might create a separate refining subsidiary that controls all refining capacity, then make the subsidiary wholly owned by PNOC, the investment firm selling shares to segue out of the subsidiary. This would allow Ashmore to focus on what it sees as the most valuable parts of the company, while the government would claim publicly that it is gaining greater control of the Philippines' natural resources.

¶3. (C) Al-Maashouq added that Aramco's decision to divest from Petron was not due to lack of profitability. According to the Aramco Treasurer, the joint venture was "making between 50 and 60 million USD annually, but was not worth the hassle." An al-Maashouq anecdote from his time as Director of Petron gave insight into the conflicts that exist between business and politics. When Saudi Aramco CEO Abdullah Jum'ah visited the Philippines to meet with President Estrada and demand that oil prices be raised so that Aramco could at

least break even on its investment in the country, the President agreed to the CEO's request in a private meeting, then proceeded to put his arm around both Jum'ah and al-Maashouq, walk from the meeting to a press conference, and tell the public that the reason the Aramco CEO had come to visit was to offer a discount in pricing that would allow oil to be 50 cents cheaper per gallon. Senior Aramco executives said that they enjoyed an excellent relationship with former Philippine President Ramos during his time in power, but had found working with both Presidents Estrada and Arroyo time-consuming and not worth the return on investment.

¶4. (C) COMMENT: Despite being fodder for humorous anecdotes, the hassle of dealing with politicians was not the underlying cause of Aramco's divestiture. Instead, al-Maashouq said that Petron, along with other joint ventures, is simply too small in size for Aramco to continue involvement given current conditions (NOTE: Saudi Aramco's profits this year will likely exceed 150 billion USD making a 50 - 60 million USD net return in the Philippines truly a drop in the bucket. END NOTE). These current conditions include a capital rich company with incredible liquidity, but a company facing limits in terms of qualified labor and certain raw materials. Given that the forecasted expansion of the global market in upcoming years has energy companies thinking about positioning in South and Southeast Asia, ventures that do not reach into the billions, and which involve secondary markets, do not seem to fit into Aramco's future plans. END COMMENT.

APPROVED: JKINCANNON
FRAKER